

# CALCULATING WORKERS' COMPENSATION PREMIUMS

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Utah Counties Insurance Pool  
Serving Counties Since 1992

Subject: Calculating Workers'  
Compensation Premiums

Objective: Show what makes  
up premium and how to  
minimize premium

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## WORKERS' COMPENSATION SYSTEM

- ◆ Designed to provide prompt, equitable relief to employees injured on the job- regardless of who was at fault

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## EQUITABLE RELIEF?



Lucky Break

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## WORKERS' COMPENSATION SYSTEM

- ◆ Protects employers from lawsuit when employer was at fault

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## WORKERS' COMPENSATION SYSTEM

- ◆ The role of "Exclusive Remedy"
  - The only recovery option for injured employees is recovery provided under the state's workers' compensation system

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## WORKERS' COMPENSATION SYSTEM

### ◆ Erosion of "Exclusive Remedy"

- Dual Capacity-Employer is in a second capacity and is responsible for injuries not related to the role of employer
- Intentional Tort-willful, intentional, or violent conduct by the employer
- Third-party-over actions-injured employee sues third party, who then brings an action against employer, usually contracted

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## WORKERS' COMPENSATION SYSTEM

### ◆ Occupational disease

### ◆ Mental Injury

- Physical/mental
- Mental/physical
- Mental/mental (IL, MS)

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## CURRENT WC ENVIRONMENT

- Period of rising loss costs – NCCI's current filing cycle experiencing 18 loss cost increases out of 32 filings
- Independent rating organizations have also experienced increases – CA, MA, NY, WI. Monopolistic funds also seeing increases – WA, OH, WV
- Growth in residual market mechanisms – 1.4 billion

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## CURRENT WC ENVIRONMENT

- Rising medical costs – 2002 +12.0%; in particular, rising pharmaceutical costs
- Several governors leading legislative initiatives to reduce overall state system costs – CA, TX, OK, TN, HI, and VT
- Continued decrease in workplace injury frequency – cumulative change 1990 – 2002 – +38.8%

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## KEYS TO A SUCCESSFUL RISK MANAGEMENT PROGRAM IN THIS CHANGING WC ENVIRONMENT

- Senior management commitment
- Continuous communication/information critical
- Employee morale
- Training – both employee and management
- Good accident analysis
- Effective return to work programs

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## THE WORKERS' COMPENSATION POLICY

- ◆ Part 1- Workers' Compensation Insurance-applies to state listed
- ◆ Part 2- Employers' Liability-damages claimed against the insured in a capacity other than as an employer
- ◆ Part 3- Other States Insurance- states not listed in Part 1, temporary

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## THE WORKERS' COMPENSATION POLICY

- ◆ Part 4- Your Duties If Injury Occurs-  
duties incase of injury, e.g., prompt  
medical treatment, witnesses
- ◆ Part 5- Premium

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## PREMIUM

- ◆ Premium is determined by insurer's  
manual of rules, rates, rating plans and  
classifications
  - Classifications are categories used to  
gauge the risks of losses

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## PREMIUM BASIS

- ◆ Premium basis for almost all classifications is remuneration (payroll)
- ◆ Nonmonetary payroll, e.g., is counted as remuneration

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## RATES

- ◆ Manual Rates-rates approved by the state and used as a starting point by insurers
  - Variations
- ◆ Advisory loss costs-expected losses per \$100 of payroll per classification
  - Load expenses for insurer

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## OTHER FACTORS AFFECTING PREMIUM

- ◆ Expense constant
- ◆ Minimum premium
- ◆ Premium discount
- ◆ Experience modifier
- ◆ Limits of employer's liability
- ◆ Audits

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## EMPLOYERS LIABILITY

- ◆ Standard limits
  - \$100,000 each accident
  - \$500,000 policy limit
  - \$100,000 each employee
- ◆ Increased limits cost more

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## AUDIT

- ◆ Audit actual payrolls to determine remuneration and adjust premium charge
- ◆ Sometimes self-audit may be requested

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## EXPERIENCE RATING

- ◆ A way to reward employers who have
  - Safer working conditions
  - Fewer workplace injuries

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## EXPERIENCE RATING

- ◆ Prospective-past losses to adjust future premiums
- ◆ Annual
- ◆ One modifier applies to one risk at a time
- ◆ Can substantially affect premium \$

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## EXPERIENCE MODIFICATION FACTOR

- ◆ A mod of less than 1
  - Credit on premium, e.g., .9 mod means the employer pays 90%
- ◆ A mod greater than 1
  - A debit will apply, e.g., 1.2 mod means the employer pays 120 %

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## MODIFIERS

- ◆ Omit most current year, use 3 previous
  - For 1/1/2004
    - ◆ Drop 2003
    - ◆ Use 2002, 2001, 2000

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## APPLYING SCHEDULE CREDITS OR DEBITS

- ◆ Drug free workplace
- ◆ Management cooperation
- ◆ Safety devices and equipment
- ◆ Safe work environments
- ◆ Active employee safety committees
- ◆ On-premises emergency medical facilities or personnel

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## APPLYING SCHEDULE CREDITS OR DEBITS

- ◆ Selection, training, experience. controls, motivation, supervision of employees
- ◆ Classification peculiarities caused by technology, employee distribution, assignment

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## PAYING FOR WORKERS' COMPENSATION

- ◆ Front end and back end
  - **Front end**-cost at the start of the policy term
  - **Back end**-way claims affect the ultimate cost

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## PAYING FOR WORKERS' COMPENSATION



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## Risk Management Strategies

- Pre-Loss - Culture
  - Focus on Managers
  - Advisory Committee
  - New Employee Training & Certification
  - Workers' Comp. Overview
  - Manager Training: Safety & Impact on County
  - Safety Challenge & Employee Incentive
  - Safety Committees
  - Departmental Training
  - Targeted Hazards
  - Mentoring Program

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## Post Loss Strategies

- Incident Kits
- Work Comp Training: Managers
- Return to Work - 100% Accommodation
- Task Lists
- Work with Adjuster
- File Standards
- Formal Audits - Performance Guarantees
- 100% Review of Lost Time Claims
- Lost Time Allocation

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## YOUR BEST STRATEGY

- Strong corporate culture
- Formalized risk management program
- Continuous improvement
- Measurable results
  - Claim Frequency
  - Claim Cost
  - Profitability
- Employee Involvement & Engagement

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